



2014-2016 Housing Levy A&F Plan

Rental Housing Program

Supplemental Funding

Proposal: *Nonprofit housing owners are increasingly asking about the availability of additional loan funds to help renovate previously funded housing projects. OH is proposing to expand current policies governing loans to projects that have existing OH funding. The current policy (attached at the end of this paper) would be replaced with a new section within the Rental Housing Program policies specifying eligible activities and costs, construction requirements, public benefits, and other guidance.*

New Section. Supplemental funding

OH may provide supplemental financing to assist in addressing unmet capital needs of existing City-funded housing projects. OH will issue a Notice of Funds Available (NOFA) for supplemental financing, and may accept applications on a rolling basis. Unless otherwise noted here, Rental Housing Program policies will apply.

When selecting existing projects to receive supplemental funding, OH will give priority to proposals that meet the following criteria:

- Proposals from owners who have operated the housing in accordance with their loan agreements, and maintained the physical condition and capital and operating reserves to the extent feasible.
- Projects that are at or near the end of their existing City loan terms where, due to the capital needs, the owner would consider selling the building unless the building can be rehabilitated.
- Proposals that present leverage opportunities that would allow a substantial rehabilitation of an existing project.
- Projects with a critical capital need or health or safety hazard, where the owner has demonstrated that there are no other resources available.
- Proposals whose scope of work includes items that, in addition to extending the useful life of the building, will also improve the operational efficiency of the building.

A. Eligible and Ineligible Activities and Costs

Eligible costs include, but are not limited to:

- Architectural/engineering fee
- Inspections & Surveys

- Capitalized Replacement Reserves in an amount approved by OH prior to application in the NOFA
- Closing costs
- Construction
- Contingency
- Developer fees in an amount approved by OH prior to application in the NOFA
- Environmental Assessments
- Hazardous materials abatement
- Insurance
- Permits
- Professional Fees
- Relocation
- Title insurance

Supplemental funding may be used to fund housing units, residential spaces, and common areas to the extent they serve the low-income housing and not other uses in the building. Examples include:

- Areas for cooking, eating, bathing
- Building Lobby
- Areas for resident use such as television or reading rooms
- Corridors, stairwells, storage areas
- Management and service office space that is accessory to the housing
- Spaces used for on-site social services

Costs associated with market-rate residential units or commercial spaces are not eligible for supplemental funding.

B. Cost-effective long-term investments

Supplemental funding proposals must demonstrate a cost effective, sustainable investment of public funding. Following are minimum requirements:

1. Capital needs assessment must demonstrate that the proposed scope of work will achieve the long-term viability of the housing project.
2. Per-square foot and per-unit costs must reflect current market trends for the type of housing being rehabilitated. Unnecessary costs are avoided whenever possible.
3. Fees for contractors and professional services must be competitive.
4. Unless otherwise approved by the Director, the useful life of the building must be extended by at least 20 years.

C. Leveraging and maximum percentage of capital funds

To the extent feasible, the Borrower is expected to make a significant financial contribution to the project.

In general, the City will provide a maximum of 50% of total development costs (TDC) the project. For purposes of this section, “project” is defined as those housing units that have previously received City funding and are rent-regulated, and common areas to the extent they serve those housing units. The City’s maximum percentage includes all Rental Housing Program funds and other City capital funds including, but not limited to Housing Levy, Community Development Block Grant, HOME, Residential Bonus Program, Commercial Bonus Program, any special mitigation funds, program income, Office of Economic Development (OED) equity funds, and OED Community Development Corporation and technical assistance funds used as capital for development or other long-term capital gap-financing subsidy. The City’s maximum percentage of project financing also includes document recording fees awarded by King County.

The maximum percentage does not include any funds used by the City to purchase transferable development rights (TDR). Bridge loans, Acquisition & Opportunity Loans and Section 108 loans are not included in computing the percentage.

The Director may allow for up to a total of 100% of residential TDC to be paid by City funds for a project that has a critical capital need or code violation that requires immediate attention and cannot be addressed through the property’s cash flow, reserves or other available resources.

D. Construction Requirements

The construction requirements of the Rental Housing Program policies will apply to supplemental funding with the exception of the following areas:

1. Competitive selection of contractors. If the Borrower proposes to use a general contractor, then it must competitively select its contractors. Borrowers must propose a competitive process that clearly meets the City’s requirements as published in each NOFA. The Borrower shall submit a summary of its proposed competitive selection process. OH reserves the right to review and approve the process prior to implementation.

Depending on the scope of work in the supplemental funding proposal and the borrower’s demonstrated ability, OH may allow the borrower to act as its own general contractor.

2. Washington State Evergreen Sustainability requirements. All OH-funded Rental Housing Program projects must follow the Washington State requirements for Evergreen Sustainable Development Standards. Details are available through the Washington State Department of Commerce. OH reserves the right to waive this requirement in the instances where the scope of work is limited.

E. Loan Conditions

The Loan Condition requirements of the Rental Housing Program policies will apply to supplemental funding with the exception of the following areas:

1. Loan terms. Supplemental funding loans will generally extend the term of the existing loan to 50 years. OH may make a supplemental funding loan for a shorter term if the scope of work is limited or if significant other public benefits are provided. Short-term financing may be provided to address a critical capital need or health or safety concern.
2. Interest rate. The interest rate for supplemental funding loans for projects not using low-income housing tax credits will generally be 1% for nonprofit-sponsored projects and 3% for private for-profit-sponsored projects. If the project is nonprofit-sponsored and serves extremely low income households in at least 50% of the units, the Director may set the interest rate at zero percent (0%). The interest rate for projects using low-income housing tax credits will be a minimum of 1% simple interest and a maximum of the Applicable Federal Rate for the purposes of Section 42 of the Internal Revenue Code, depending on the project's projected capacity for repayment. The actual interest rate for projects using low-income housing tax credits will generally range from 1-3% and will be set on a case-by-case basis. The interest rate will exceed 1% where there is a net financial benefit to the project. The purpose of establishing a range for the interest rate is to provide flexibility in financial structuring to maximize tax credit equity contributions and to help preserve long-term affordability. Interest on program loans will accrue annually as simple interest.

E. Public Benefit

Regardless of the supplemental funding amount, a public benefit must be realized in order for a proposal to receive a fund reservation. Public benefit includes, but is not limited to the following:

1. Extended period of affordability of an existing OH loan
2. Deeper level of affordability of an existing OH loan
3. Accommodating a change of population served in the project
4. Other public benefit proposed by the borrower, acceptable to OH.

Existing A&F Plan policy, III. Financing Methods, p. 14 – to be deleted

A. Supplemental funding for projects previously funded by the City

The Office of Housing may provide financing to meet the capital needs of existing City-funded projects that meet at least two of the following criteria: a) the property has a critical capital need or code violation that cannot be addressed through the property's cash flow, reserves or other available resources, b) no other funding is available within the time frame required for the project, c) a public benefit will be realized as a result of the additional City funds, and d) the Borrower will make a significant financial contribution. All such financing is dependent upon the borrower's ability to meet the goals and requirements of the NOFA and demonstrate a plan for capable management and fiscal operations of the property. Such funds may be provided as shorter-term loans or added to existing long-term OH loans, as OH may determine based on the circumstances of the project.

In cases where the City has determined a project eligible for supplemental funding, original loan terms and conditions may be changed to the terms and conditions applicable at the time of refinancing.